**2001 Country Reports on Economic Policy and Trade Practices**
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# ALGERIA

## Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

| | 1999 | 2000 | 2001 1/ |
|---|---|---|---|
| *Income, Production and Employment:* | | | |
| Nominal GDP 2/ | 51,400 | 53, 483 | 50,703 |
| Real GDP Growth 3/ | 4.0 | 2.6 | 2.8 |
| GDP by Sector: 2/ | | | |
| Agriculture | 6,171 | 4,320 | 4,292 |
| Manufacturing | 5,129 | 3,890 | 3,887 |
| Construction | 5,028 | 4,650 | 4,776 |
| Hydrocarbons | 12,042 | 21,802 | 18,602 |
| Services | 12,707 | 10,020 | 10,061 |
| Government | 10,323 | 8,801 | 9,085 |
| Real Per Capita GDP (US$) | 1,620 | 1,747 | 1, 625 |
| Labor Force (millions) | 8.3 | 8.55 | 8.85 |
| Unemployment Rate (pct) | 29.0 | 30.1 | 30.2 |
| *Money and Prices (annual percentage growth):* | | | |
| Money Supply (M2) | 14.5 | 15.5 | 17.5 |
| Consumer Price Index | 2.46 | 0.34 | 4.2 |
| Exchange rate (dinar/ US$, annual average) | | | |
| Official 4/ | 66.64 | 75 | 77 |
| Parallel 5/ | 71 | 88 | 89 |
| *Balance of Payments and Trade:* | | | |
| Total Exports FOB | 12,522 | 22,031 | 19,602 |
| Oil/Gas | 12,084 | 21,419 | 18,725 |
| Exports to United States | 1,861 | 3,428 | 3, 081 |
| Total Imports CIF | 9,164 | 9,173 | 10,065 |
| Imports from United States | 770 | 1, 046 | 915 |
| Trade Balance | 3,358 | 12,858 | 9,537 |
| Balance with United States | 1, 046 | 2,382 | 2,166 |
| Current Account Deficit/GDP (pct) | 4.17 | 16.76 | 14.25 |
| External Public Debt | 28,96 | 25,2 | 22.5 |
| Fiscal Deficit (-) or Surplus /GDP (pct) | -0.5 | 10 | 5.1 |
| Debt Service Payments/GDP (pct) | 9.96 | 8.41 | 7.69 |
| Gold and Foreign Exchange Reserves | 6,51 | 13,40 | 19,7 |
| Aid from United States /6 | N/A | N/A | 0.8 |

| | | | |
|---|---|---|---|
| Aid from All Sources | N/A | N/A | N/A |

1/ 2001 data based on: a) Data for less than full year from Algeria's Central Bank, Algerian Customs b) Embassy estimates.
2/ GDP at current market price.
3/ Percentage changes calculated in local currency.
4/ Bank of Algeria and embassy estimates.
5/ Embassy estimates.
6/ Does not include TDA grants.

*1. General Policy Framework*

Algeria offers significant opportunities to U.S. firms with a long-term perspective looking to export, to invest, or to form joint ventures. The country is the largest in North Africa and the most populated (31 million people in 2001). Algeria has large proven oil reserves with 9.2 billion barrels of oil equivalent but with an aggressive exploration program already underway, this number is expected to rise substantially. It is one of the world's largest producers of natural gas with reserves of 4.52 trillion cubic meters. The country's hydrocarbon revenues for 2000 reached US$ 22 billion, the highest level ever. In 2001, their value should decrease to US$ 19 billion owing to lower oil prices (to a large extent gas prices are pegged to oil prices). U.S. technology and expertise are prized as a means to explore and exploit these resources. In addition, as Algeria currently negotiates both an association agreement with the EU and entry into WTO, it must urgently modernize its industry. Eager to lower its reliance on traditional suppliers, e.g. France, Algeria is actively seeking U.S. firms as suppliers of equipment, engineering expertise, technology, and capital.

*Balance of trade between the United States and Algeria*

Total Algerian imports in 2001 are expected to reach US$ 10 billion. In 2001, U.S. exports to Algeria decreased by 12 percent from 2000, mostly because of a drop in grain exports (see next paragraph). However, the United States still remains the third largest exporter to Algeria. The United States is the second largest importer of Algerian goods (mostly hydrocarbons). In 2001, Algerian exports to the U.S. (US$ 3 billion) decreased by ten percent from 2000, mostly because of lower oil and gas prices. The balance of trade between the two countries remains very much lopsided in favor of Algeria: the value of its exports to the United States was greater than the value of its imports from the United States by US$ 2 billion in 2001.

*Largest current and potential markets for U.S. exports*

The hydrocarbon sector is the largest market for U.S. exports (mostly oil/gas exploration and recovery equipment). Because Air Algérie, the national airline, has chosen Boeing planes to modernize its fleet, aerospace was the second largest market for U.S. exports in 2000. As a result of the planned modernization of Algerian industry, there is now a strong potential demand for U.S. goods and services in other sectors, including: engineering, sensors and process control, instrumentation and high technology (in particular telecommunications). Algeria imported some

$2.4 billion in foodstuffs in the year 2000 and is the world's fifth largest importer of wheat. While there are, therefore, significant opportunities for U.S. agricultural importers, there are also considerable challenges. Historical ties, common language, and proximity (in addition, sometimes, to export subsidies) have long afforded Western Europe a competitive advantage. Eastern Europe has also become a major competitor in the region, especially in grains. Because purchasing U.S. grain requires large shipments, long shipping times, and therefore a higher financial risk, Algerian traders often prefer to purchase smaller shipments from Europe, which can arrive in a short time and involve less risk. U.S. wheat exports to Algeria dramatically decreased in the first half of 2001, partly as a result of commercial and inspection problems with several wheat shipments in the fall of 2000. There may be new opportunities for U.S. cereals exporters in the future, as the new reorientation of Algerian agriculture will result in more production of traditional crops such as olives and grapes, at the expense of cereal production. This reorientation should result in an important need for equipment for processing and packaging agricultural products, creating export opportunities for U.S. manufacturers of such equipment.

*A stabilized economic environment*

In 1994, the Algerian government, with support from the IMF, adopted a three-year structural adjustment program of prudent fiscal and monetary policy geared towards macroeconomic stability. The results of this policy have been significant: Inflation was 20.3 percent in 1996; it was around 4 percent in 2001. The instruments of monetary policy in Algeria are limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set weekly by a government board. In 2001, the central bank discount rate stood at six percent and commercial bank lending rates ranged between eight and ten percent.

*Financial services and telecommunications: The two main bottlenecks*

The lack of a modern financial services sector restricts the growth of the economy. Most of the banking sector is still owned by the government and, according to the government, is inefficient (for instance, interbank clearing is still done manually) and overstaffed. Reform efforts in the sector have progressed slowly. However, a few years ago the government made it possible for private banks to operate freely and they are doing well. Several private banks now operate in Algeria. The most prominent are: a U.S. group (Citibank), an Algerian group (Khalifa), two French banks (Natexis/Banques Populaires and Societé Générale) and one Arab group (ABC). BNP Paribas is set to start operations in 2002. Citibank is growing fast, has opened a branch in Hassi Messaoud in the heart of the oil and gas fields, and will be moving soon to a new office building of its own. The Khalifa group has been taking market share away from Algeria's state-owned banks. Started just a few years ago, it now has 45 branches throughout the country. It recently entered into an agreement with Western Union, under which Western Union services (International Money transfers) will be available at Khalifa's branches.

Obsolete telecommunications systems are also an impediment to banking reform and more generally to economic growth. However, aware of the need for reform, the government decided, two years ago, to end the Ministry of Post and Telecommunications monopoly. Two state-owned firms will be created to take over the services activities of the Ministry; each will compete with private sector firms. The Ministry will mostly retain a regulatory role. Algeria

Telecom, one of the state-owned firms being created, will provide telecom services. It will have a GSM license. On July 31, 2001, a second GSM license was awarded to Orascom, an Egyptian firm that expects to start providing services in February 2002. The second state-owned firm to be created will be an ISP provider and will compete with other providers. U.S. firms, large and small, have bid or are bidding on equipment RFPs issued by the Ministry of Post and Telecommunications.

*2. Exchange Rate Policy*

Since January 1996, an interbank foreign exchange market has set the exchange rate of the Algerian currency (the dinar).

In 2001, the average exchange rate was about 77 dinars to a dollar, up from 75 in 2000. The dinar's depreciation reflects the rise of the U.S. dollar against most currencies in 2001.

The dinar is convertible for all current account transactions. Private and public importers may buy foreign exchange from commercial banks for commercial transactions provided they can pay for hard currency in dinars. Although commercial banks may buy foreign exchange from the Bank of Algeria, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. Thanks to hydrocarbon export, total foreign exchange reserves are expected to reach US$ 19 billion by the end of 2001.

*3. Structural Policy*

While reaffirming its commitment to the continuation of fiscal and monetary discipline, the government launched in 2000 a program of major structural changes. The objective of this program is to radically transform and modernize the Algerian economy to solve problems that have been plaguing the country for years.

The most pressing problem is unemployment. It now stands at 30 percent overall and as high as 70 percent for those under 25 (the majority of the population).

Starting in 1996, the government had taken steps to replace what used to be a socialist, centrally planned and managed economy with a more decentralized and flexible one. In 2000, the cost and the failure of the measures adopted hitherto to modernize the economy convinced the government to disengage itself completely from the ownership and from the running of firms. In order to transform the Algerian economy into one based upon free market principles, the government announced in 2000 a four-pronged program:

- With the exception of the energy sector, most firms now owned by the government (the quasi totality of industrial firms) will be privatized. They will be sold to their employees, to private Algerian businessmen, to foreign firms or to partnerships of any or all of the three.

- All public service sectors currently served by a monopolistic government owned utility will be deregulated and competition will be encouraged. The first sectors to be so reformed will be telecommunications and the production and distribution of gas and electricity.

- The energy sector will be reformed through competition and by opening the capital of government-owned firms to private interests (Algerian or foreign).

- The banking sector will be entirely restructured through competition and foreign participation in order to improve services and reduce costs.

This program is very ambitious. Given the outcome of past programs, this program will require the cooperation of key stakeholders (the unions, the workers, and the bureaucracy) with diverging interests for it to succeed.

In August 2001, the Algerian Council of Ministers approved draft laws and administrative changes that will facilitate the privatization of the country's state-owned firms. The Cabinet decided that, with a handful of exceptions, all of the country's 937 state-owned firms will eventually be sold. Only a few strategic firms, such as Sonatrach (oil and gas firm), will remain state-owned.

*Bilateral and Multilateral Agreements*

Algeria applied for GATT contracting party status in its own right in 1987. Negotiations, however, never commenced. In January of 1995, Algeria’s GATT Accession Working Party was automatically converted to WTO. Algeria activated the negotiations by circulating a description of its trade regime to WTO Members in July of 1996, and providing additional information on its trade regime, on agriculture, and on services, in January 1998. Algeria’s Working Party met in April 1998 to conduct an initial review of the trade regime, and Algeria responded to additional questions from WTO Members, including the United States, in December 1998. After that, however, the negotiations lapsed. Recently, however, Algeria has renewed efforts to resume negotiations.

The United States and Algeria signed a Trade and Investment Framework Agreement (TIFA) in July 2001. The TIFA provides for regular, high-level bilateral consultations on trade and investment relations. The first TIFA meeting is expected to be held in early 2002.

Algeria has resumed negotiations with the European Union to conclude an Euro-Med Association Agreement and hopes to finalize these negotiations in early 2002. Such a treaty would eliminate tariffs on most industrial goods between Algeria and the European Union over a twelve-year period.

*4. Debt Management Policies*

The reduction of its external debt burden has been one of Algeria's key priorities. Algeria has been successful in its efforts to reduce debt by devoting much of the windfall resulting from high oil prices to debt repayment. Total medium and long-term debt stood at US$ 30.26 billion in 1998. It decreased to US$ 25.2 billion in 2000 and to US$ 22.5 billion in 2001. As a result, the amounts devoted to debt service went from US$ 5.12 billion in 1999 to US$ 4.5 billion in 2000.

The debt/GDP ratio was 59.1 percent in 1999, 52.1 percent in 2000 and should decrease to 45.5 percent in 2001. By the same token, the share of export earnings spent on debt service payment, 39.6 percent in 1999, should drop to 28.6 percent in 2001.

Thanks to the oil windfall and to prudent fiscal policy, Algeria had a budget surplus of 10 percent of GDP in 2000. This surplus should shrink to five percent of GDP in 2001 because of the decrease in the price of oil and because in April 2001 Algeria launched a very ambitious program of public spending on infrastructure to stimulate the economy.

### *5. Significant Barriers to U.S. Exports*

There are no barriers specifically erected to stem U.S. exports. However, for many years tariffs on imports were high in Algeria. Many still are. Consistent with its decision to finalize an association treaty with the EU and to become a member of WTO, Algeria is committed to lowering tariffs. The modernization of Algerian customs, a key priority, is under way. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming and the source of many complaints. Finally, much of Algeria's purchasing overseas is done though international RFPs and tenders. Streamlining these and, making them more transparent, is a stated objective of the Algerian government and much headway was made in 2001. In particular, Sonatrach (the state-owned oil and gas firm) used to take over two years to award exploration contracts. Now only three months separate the issuance of the RFP and the opening of the bids. (Exploration licenses are awarded to the highest bidder).

#### *Non tariff barriers*

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, narcotics, and pork products, which are prohibited for security or religious reasons. The government insists on specific testing, labeling, or certification requirements being met, however. Algeria is increasingly adopting, and requiring compliance with, European Union quality standards (e.g. ISO). In December 2000, Algeria prohibited the importation, distribution, or sale of genetically modified organisms (GMOs).

The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic. This regulation is enforced. It is helpful to label products in French. Food products when they arrive in Algeria must have at least 80 percent of their shelf life remaining.

*Export of services*

The government plans to deregulate and to allow private competition in most service sectors. Insurance, banking, air transportation (five private airlines have been operating in Algeria since 1998), and air courier services have already been deregulated and foreign firms are actively encouraged to participate. (DHL now offers service in several Algerian cities).
In the power sector, a state-owned firm, Sonelgaz, currently enjoys a monopoly for production, transport and distribution. The year 2002 should see the end of this monopoly. In early 2001, Sonelgaz launched a 2000 MW (megawatt) Independent Power Producer (IPP) project. 40 percent of the power produced will be reserved for domestic distribution, with the remaining 60 percent being exported (to Spain, Morocco or Tunisia). One U.S. group and three European groups bid on the 2000 MW project.

*Foreign Investment into Algeria*

The Algerian government seeks to disengage itself from the ownership of firms. In addition, modernization of Algerian industry has become a top priority. For these reasons, foreign investment especially by U.S. corporations is actively sought. In 2001, a new agency, ANDI, was created to facilitate investment into Algeria. ANDI coordinates all registration formalities for investors; it also puts together packages of incentives available under the investment code such as tax relief, lower customs duties, and exceptions to labor laws.

The Algerian government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but no U.S. firms have been disadvantaged by Algeria's policy in this regard.

*6. Export Subsidies Policies*

About 97 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a non-hydrocarbon exports insurance and guarantee program in 1996, but it has had little effect. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical or archaeological significance.

*7. Protection of U.S. Intellectual Property*

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. The body of Algerian legislation devoted to the protection of intellectual property is significant. For instance, there are both civil and criminal penalties for infringement of copyrights. However, enforcement of this legislation is often lacking. Improving the enforcement of its intellectual property legislation has become a priority of the Algerian government. U.S.

firms with a high stake in preventing infringement of their intellectual property are currently working closely with the Algerian authorities to improve the situation.

Patents and trademarks are administered by the Institut Algérien de Normalisation et de Propriété Industrielle (INAPI); copyrights are administered by ONDA. (Office National des Droits d'Auteurs). Patents are protected by the law of December 7, 1993; Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology. The laws of March 19, 1966, and of July 16, 1976, afford trademark protection.

A 1973 law provides broad copyright protection for books, plays, musical compositions, films, paintings, sculpture, and photographs. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for, among other things, videos and radio programs.

## *8. Worker Rights*

Workers in Algeria enjoy considerable rights and do not hesitate to strike when they perceive that these rights are threatened. The current privatization respects workers rights and encourages workers to become owners of the firms they work for.

*a. The Right of Association:* In theory, workers may form and be represented by trade unions of their choice. In fact there is essentially one union in Algeria, UGTA (Union Générale des Travailleurs Algériens). It serves as an umbrella organization with local chapters in individual firms and sector chapters. In theory, unions may not affiliate with political parties or receive funds from abroad. In fact UGTA, from its inception, has been closely aligned with FLN, the only party in Algeria from 1962 to 1989 and the dominant party until 1997.

*b. The Right to Organize and Bargain Collectively:* A quarter of all Algerian workers are members of UGTA. Union-led strikes have been frequent in the past five years as industry was being reorganized. Such strikes are likely to be at least as frequent in the future as government owned firms are being privatized. Because of the overstaffing of Algerian State owned enterprises, privatization is likely to result in the elimination of numerous redundancies and workers are worried. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced.

*c. Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor has not been practiced in Algeria and is proscribed by the constitution.

*d. Minimum Age for Employment of Children:* The minimum employment age is 16 years and inspectors can enforce the regulation. In practice, many children work part or full time in small private workshops, in family farms and in informal trade.

*e. Acceptable Conditions of Work:* The 1990 law on work relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour workweek. Employers pay an amount equal to 26 percent of salaries to the government for their workers' social security, workmen's compensation and unemployment disability insurance. The government has set a guaranteed monthly minimum wage. It is currently set at 8000 Algerian Dinars (US$104). A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

*f. Worker Rights in Sectors with U.S. Investment:* Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy all the rights defined above. These workers at American firms enjoy better pay and safety than do most workers elsewhere in the economy.

**Extent of U.S. Investment in Selected Industries** -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | 3,349 |
| Total Manufacturing | | 0 |
| Food & Kindred Products | 0 | |
| Chemicals & Allied Products | 0 | |
| Primary & Fabricated Metals | 0 | |
| Industrial Machinery and Equipment | 0 | |
| Electric & Electronic Equipment | 0 | |
| Transportation Equipment | 0 | |
| Other Manufacturing | 0 | |
| Wholesale Trade | | (*) |
| Banking | | (D) |
| Finance/Insurance/Real Estate | | 0 |
| Services | | 28 |
| Other Industries | | (D) |
| TOTAL ALL INDUSTRIES | | 3,639 |

(D) Suppressed to avoid disclosing data of individual companies.
(*) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.